

June 2019 Quarterly Activities Report

Smart Marine Systems' subsidiary Harvest Technology secures strategic vessel charter, executes key alliance with global offshore solutions provider and secures first contract.

Highlights

- Shareholders unanimously approved the acquisition of specialist marine services business, Harvest Technology Pty Ltd at a meeting held on 26 April 2019.
- \$3.6 million in working capital raised by way of private placements (\$2.9 million - of which \$1.1 million announced on 2 July 2019) and a 1:7 entitlements issue (\$700,000).
- Harvest secured a long-term charter of an offshore support vessel.
- Harvest executed a Collaboration Agreement with global offshore solutions provider Fugro Australia Marine Pty Ltd.
- Harvest awarded inaugural contract from Fugro for the delivery and installation of fibre optic cable from Tiwi island to offshore Darwin.
- Harvest Managing Director, Paul Guilfoyle, a highly experienced global marine and subsea technology and services sector specialist, joins the board of Smart Marine as an Executive Director.

31 July 2019 – Australian marine technology company Smart Marine Systems Limited (ASX:SM8) ("Smart Marine Systems" or "the Company") is pleased to provide its activities report for the three months to the end of June 2019.

Harvest Technology Pty Ltd

On the 26th April 2019, shareholders approved the Company's acquisition of Harvest Technology Pty Ltd. Harvest is a new dynamic solutions and service provider to the subsea technology, renewable energy and oil and gas sectors, that will leverage a range of cutting-edge technologies to offer unique bespoke subsea solutions.

Harvest possesses a number of key strategic relationships within the global subsea technology and services sector that will immediately assist in promoting the businesses growth and expansion. Harvest is led by an experienced, high-performance management team, headed by Mr Paul Guilfoyle.

This team collectively has over 50 years marine and subsea technology expertise supported by extensive client relationships and key industry partnerships. The management team has successfully built subsea solutions operations and has a reputation for strategy vision and leadership within the industry.

Vessel Charter - VOS Shine:

On 27 May 2019 Harvest signed a bareboat charter party with DSV IV Express B.V. for the long-term charter of the VOS Shine ("**Shine**"), a 60 metre DP2 Lloyds classed Offshore Support Vessel. Purpose built in 2012 as a shallow draft Survey, Air Dive and Remotely Operated Vehicle (**ROV**) support vessel, the Shine provides Harvest with a solid platform from which to propel its future growth strategies into the Asia-Pacific region.

Delivery of the Shine was taken in late July in the Netherlands, with the arrival in Australia expected in late August ahead of the commencement of its first Australian scope of work. The vessels' home port will be Dampier, Western Australia.

Harvest Managing Director Paul Guilfoyle commented "the vessel is already attracting strong interest from industry operators and contractors, and Harvest is pursuing several opportunities subsequent to its first contract."

Strategic Alliance:

Harvest's relationship with Fugro has been reinforced with the execution of a two-year Collaboration Agreement that will see Fugro install survey equipment, ROV and remote communications technology onboard the Shine. Fugro is a global industry leader in survey, offshore Inspection Maintenance and Repair (**IMR**), remote monitoring system technologies, and subsea engineering. Both companies will jointly market and utilise the vessel within Australia.

First Contract:

Harvest's first contract involves the Shine delivering fibre optic cable from Calais, France to Darwin, in conjunction with the vessel mobilising into Australia. On arrival, the Shine will commence installation of the cable from Tiwi Island to offshore Darwin. The revenue from this initial contract is estimated to be between A\$1.2 million and A\$1.4 million.

In relation to recent activity by Harvest, Managing Director Paul Guilfoyle commented "We are excited about the significant progress made by securing the Shine and cementing the relationship with Fugro. The first contract will give the Company a fantastic opportunity to showcase its unique capabilities. The Harvest team are extremely energised toward becoming the go-to platform for delivering dynamic and innovative end-to-end offshore solutions for clients. The interest already being experienced has identified a pipeline of prospective opportunities".

Board Changes:

In May, the Board appointed Rod Evans as a Non-Executive Director of the Company. Rod is an experienced company director and the Board believes that Rod's experience will strengthen and compliment the Board's existing skill base.

In June the Board was also pleased to appoint Paul Guilfoyle as an Executive Director of Smart Marine. David McArthur commented "The depth of experience, knowledge and management Paul brings to the board are keys to the growth of Harvest to becoming an industry leader in its field. We were delighted to have Paul join the board."

Craig Anderson also resigned as a Director during June. The Board wish to express their thanks to Craig for his tireless efforts over the past 3 years in his efforts to commercialise the Marine Monitoring and Alert System - Clever Buoy.

Capital Raising:

In May the company raised \$1.8 million by way of the placement of shares at 2.2 cents, followed by a 1:7 entitlements issue to raise a further \$700,000 at 2.2 cents.

A further \$1.1 million was raised at 2.2 cents in early July to provide additional working capital.

Marine Monitoring and Alert System | Clever Buoy

Despite successfully completing a 100-day pilot deployment at Newport beach in California during which the Clever Buoy observed a significant level of marine life including a significant volume of threatened shark activity, Newport Beach city officials have not yet agreed to the permanent installation of a Clever Buoy facility.

The Company continues to receive interest from the community and city officials in Cape Cod, Massachusetts. The Company presented to 125 interested parties at a meeting called by the city. As with Newport, the Company awaits a response from Cape Cod in relation to the use of Clever Buoy technology.

As a result of the lack of action by the municipalities in the USA to contractually engage with Smart Marine in relation to Clever Buoy, the Board have commenced a review to assess possible strategies for the future of Clever Buoy and the potential commercialization of the technology.

Ends.

For further information please contact:

Mr David McArthur
Company Secretary
Smart Marine Systems Limited
Tel: 08-94353200

1st Floor, 31 Cliff Street,
Fremantle, Western Australia 6160
E: enquiry@smartmarinesystems.com
P: +61 1300 524 392
ABN: 77 149 970 445

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

SMART MARINE SYSTEMS LIMITED

ABN

77 149 970 445

Quarter ended ("current quarter")

30 June 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	48	71
1.2 Payments for		
(a) research and development	-	(153)
(b) product manufacturing and operating costs	(5)	(23)
(c) advertising and marketing	(96)	(371)
(d) leased assets	-	-
(e) staff costs	(333)	(680)
(f) administration and corporate costs	(378)	(522)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	(2)	(4)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	74	370
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(691)	(1,311)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(34)	(34)
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	56	56
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)*	(25)	(119)
2.6	Net cash from / (used in) investing activities	(3)	(97)

* Loan funds advanced to Harvest Technology for operations commencement prior to consolidation upon acquisition - \$50k. Cash and cash equivalents acquired on acquisition of Harvest Technology - \$25k.

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	2,934	3,443
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(212)	(249)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(55)	(82)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (loan repaid by associate company)	-	-
3.10	Net cash from / (used in) financing activities	2,667	3,112

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	199	468
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(691)	(1,311)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3)	(97)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,667	3,112

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	2,172	2,172

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,172	199
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,172	199

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

147

-

This includes salaries paid to Directors, as well as superannuation paid on behalf of Directors. Additionally, this includes corporate and accounting services paid to a company associated with one of the Directors.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	987
9.3 Advertising and marketing	-
9.4 Leased assets	881
9.5 Staff costs	429
9.6 Administration and corporate costs	284
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows *	2,581

* Estimated outflows exceed current cash on hand – these cash outflows coincide with commencement of subsea operations in the coming quarter by Harvest Technology which will realise substantial cash inflows to cover operational costs and drive profit. SM8 additionally raised \$1.1m via capital raising in July 2019.

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	<i>Harvest Technology Pty Ltd</i>	N/A
10.2 Place of incorporation or registration	<i>Perth, Western Australia</i>	
10.3 Consideration for acquisition or disposal	<i>15m Fully paid ordinary shares and 80m Performance Rights – refer ASX announcement 26 March 2019 for further details</i>	
10.4 Total net assets	<i>\$700</i>	
10.5 Nature of business	<i>Subsea IMR</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:

Director and Company Secretary

Date: 31 July 2019

Print name: David M McArthur

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.